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UNCLAS SECTION 01 OF 02 OTTAWA 000627

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E.O. 12958: N/A

TAGS: SENV ENRG PGOV CA

SUBJECT: RE-WRITTEN CLEAN AIR ACT WOULD CAP GHG EMISSIONS

-- IF ENACTED

REF: 06 OTTAWA 3423

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¶11. (SBU) Summary: The Conservative's "Clean Air Act" emerged March 30 from its legislative committee re-draft a very different document from the draft bill that went to the committee in December 2006. The new bill C-30 emphasizes hard targets for reducing greenhouse gas emissions and penalties for non-compliance. Yet it is far from certain the bill will be adopted in this form. The government has several options and controls next steps. It can submit the revised bill to the House of Commons for a vote, or it can resubmit the original bill, or its own revision. Or it can choose not to return the bill to the House at all and proceed with its regulatory approach under existing statute. Each choice holds some risk, and whether the government would use the bill to trigger an election remains a matter of much speculation. The government is not tipping its hand. End summary.

New Draft Sets Hard Targets for GHG Emissions...

¶12. (U) The revised bill C-30 differs from the original Tory bill (the "Clean Air Act," tabled in the House of Commons on October 19, 2006) in several important aspects and not surprisingly, given opposition parties' majority on the legislative committee, bears a strong resemblance to the Kyoto bill, C-288, the House passed on February 14, 2007. For one, it mandates hard GHG emissions targets beginning in ¶2008. The Act prescribes a "national carbon budget," to be determined by the Minister of the Environment, which for each year from 2008 to 2012, corresponds to a 6 percent reduction in Canada's domestic greenhouse gas emissions from their 1990 level (i.e., Canada's Kyoto Protocol target). Carbon budgets in out years would require a 20 percent cut from 1990 levels in 2020; a 35 percent cut by 2035, and a 60-80 percent cut by ¶2050. The original Clean Air Act called for initial intensity-based targets for GHG emissions before switching to hard targets in the 2020 to 2025 time frame.

¶13. (U) Under the re-drafted legislation the Minister would also determine sectoral and individual carbon budgets for sectors and individual emitters deemed significant by the Minister. Individual budgets would take into account: early action to reduce emissions; the range of abatement opportunities available to the emitter, and "fair treatment"

of the emitter with respect to its prospects for economic growth in comparison to the average for the sector.

... and Financial Penalties for Emitters

¶4. (U) Under the proposed legislation, once the carbon budgets are determined, the Minister shall issue permits to the emitter for a set amount of GHG emissions equal to that entity's individual carbon budget. If emissions exceed the permitted amount, the emitter will be liable for a financial penalty per ton of carbon dioxide equivalent of C\$20 in 2008, C\$25 in 2009 and 2010, C\$30 for 2011 and 2012, and for 2013 and after C\$30 or more, as prescribed by the Minister.

¶5. (U) To manage the financial accounting the re-drafted legislation calls for the creation of an independent agency to be known as the Green Investment Bank of Canada, which would be responsible for monitoring and regulating the GHG emissions of large industrial emitters. Emitters would make annual deposits to their "green investment account" based on their emissions level and the cost of carbon credits. The emitter could withdraw funds from its account to retrofit facilities to reduce GHG emissions, but funds that remain in a green investment account for two years without being allocated to an approved project will be transferred into a "Green Investment Fund" and lost to the individual emitter. The Green Investment Bank would invest those funds to further reduce greenhouse gas emissions in Canada, targeting half for a revolving building retrofit fund program, and half for investment in greenhouse gas reduction projects with a minimum of 80 percent of the funds to be spent on projects in the province or territory where emitter is principally situated.

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Next Steps

¶6. (SBU) There has been significant speculation that the revised Clean Air Act will be the trigger for an election, because either opposition parties would like to goad the government into fighting an election on climate change or because the government would deem it a "confidence measure" which would lead to an election if the opposition passes the bill over the government's opposition. But in fact, the government has several options, and it controls next steps with the bill. As far back as November 2006, Rob Taylor, then the Director of Parliamentary Affairs for the Conservative House Leader, told Embassy the Conservatives still hold some cards: if the legislation that comes back from committee is unacceptable, the government can choose not to submit it for third reading and consequently kill it (reftel). Indeed, we have reconfirmed with House procedural experts that there are additional options available to the government. The government can submit the revised bill to the House for a vote, it can re-submit the original bill, or it can offer its own re-written version (these two latter options would require the government to submit the bills at first reading stage). Or, as suggested by Taylor, it can choose to not submit the bill back into the House of Commons at all and proceed with its regulatory approach under existing statute (as government officials have assured us they can and are prepared to do). The final possibility, of course, is that an election is called before the bill, in whatever form, completes all legislative stages, in which case it would "die" on the order paper, and a new parliament would have to initiate the legislative process from the beginning.

¶7. (SBU) Each choice holds some risks for the government, and the government's political calculus certainly involves many variables. In sum, it is far from certain that the revised C-30 will either be used to precipitate an election or that its provisions for regulating greenhouse gas emissions will be enacted. The government is as yet holding its cards

closely on how it intends to proceed with C-30, and with the House still on recess until April 16, there is no compelling reason to rush an announcement. We suspect the government's decision on how to push forward its climate change strategy rests as much with its domestic political calculations as it does with its environmental platform.

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